



## Morningstar Investment Management LLC Form ADV Part 2A: Firm Brochure *Retirement Services for Individuals*

22 West Washington Street, Chicago, IL 60602  
Phone: 312.696.6000  
[www.corporate.morningstar.com](http://www.corporate.morningstar.com)

March 27, 2023

**This brochure provides information about the qualifications and business practices of Morningstar Investment Management LLC. If you have any questions about the contents of this brochure, please contact us at 312.696.6000 or send an email to [complianceemail@morningstar.com](mailto:complianceemail@morningstar.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.**

**Additional information about Morningstar Investment Management LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Morningstar Investment Management LLC is registered with the SEC as a registered investment adviser. Registration with the SEC does not imply a certain level of skill or training.**

All current versions of our firm brochures are available in the Part 2 Brochures section of this record on the SEC's website. You can also request a copy of our current brochure free of charge by contacting our Compliance Department at 312.696.6000, or by email to [complianceemail@morningstar.com](mailto:complianceemail@morningstar.com). In your request, please indicate the name of the company (Morningstar Investment Management) and the service brochure(s) (Retirement Plan Services for Individuals or Institutional Advisory Services) you are requesting.

### Item 2. Material Changes

The *Retirement Services for Individuals* Firm Brochure dated March 27, 2023 contains no material changes since our last annual update dated March 24, 2022. The non-material changes since our last annual update are:

*Item 4. Advisory Business* was updated to reflect our assets under management and advisement as of December 31, 2022.

*Item 8. Methods of Analysis, Investment Strategies, and Risk of Loss* was updated to update the members of the Morningstar Retirement<sup>SM</sup> Investment Policy Committee.

*Item 10. Other Financial Industry Activities and Affiliations* was updated to provide current information about the two groups within Morningstar Investment Management LLC – Morningstar Retirement and Morningstar Wealth<sup>SM</sup> – and the services Morningstar Wealth offers. We removed information about using some members of Morningstar's Investment Management group as "participating affiliates," as we do not currently use any affiliates or their employees to provide certain services under an intercompany participating affiliate agreement. Finally, we added information about a new Morningstar Retirement team consisting of employees of our affiliate located in Toronto, Canada.

*Item 14. Client Referrals and Other Compensation* was updated to reflect the Advisers Act rule change from Rule 206(4)-3(a)(2)(ii) to Rule 206(4)-1 for the payment of direct or indirect cash or non-cash payments to parties who recommend our services and to note that disclosures are provided to solicited clients at the time of the solicitation to make them aware of the arrangement between us and the solicitor, that the solicitor has a financial interest in recommending us to the client, other material

conflicts of interest, and the terms of any compensation paid to the solicitor as a result of the referral.

The Brochure Supplement accompanying this Firm Brochure was updated since the last annual update to note when a listed employee serves on an Investment Policy Committee related to Morningstar Investment Management's advisory services.

We made other edits where necessary to correct grammar or punctuation, to provide clarification or further information, for consistency in terminology or content, or to improve the readability of the brochure.

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### Item 4. Advisory Business

#### Firm Information

Morningstar Investment Management LLC ("we", "our" or "us") is a Delaware limited liability company that was incorporated in 1999. Morningstar Investment Management is a wholly owned subsidiary of Morningstar, Inc. ("Morningstar"). Morningstar is a publicly traded company (Nasdaq Ticker: MORN) with Mr. Joseph Mansueto, Executive Chairman of Morningstar, holding more than 30% of Morningstar's outstanding shares. Because of that ownership, Mr. Mansueto is an indirect owner of Morningstar Investment Management.

Morningstar Investment Management is registered with the SEC under Section 203(c) of the Investment Advisers Act of 1940, as amended ("Advisers Act"). Morningstar Investment Management has filed the appropriate notices to conduct business in all 50 states, the District of Columbia, Guam, and the Commonwealth of Puerto Rico. Morningstar Investment Management is registered with the U.S. Commodity Futures Trading Commission as a Commodity Pool Operator ("CPO") and is a member of the U.S. National Futures Association.

Morningstar Investment Management is part of Morningstar's Investment Management group, a global investment team composed of investment analysts, portfolio managers, and other investment professionals. The Investment

Management group consists of Morningstar's subsidiaries that are authorized in the appropriate jurisdiction to provide investment management and advisory services. The Investment Management group's investment and operations teams span the globe, with 9 country offices and primary offices in Chicago, London, and Sydney.

The services described in this brochure are offered by the Morningstar Retirement<sup>SM</sup> group within Morningstar Investment Management. This group builds its advisory services on several fundamental principles:

***Personalized.*** Our primary objective is to help you get on track for your retirement goals by furnishing you with a personalized strategy on asset allocation and investments. We tailor our strategy to your specific circumstances, including financial situation, future retirement goals, and risk capacity (the amount of risk you want to take to help reach your goals).

***Goals-Based.*** We recognize that a prudent strategy must be built in relation to specific goals, and we help you define those goals and develop a strategy aimed at reaching them.

***Diversified.*** While no investment strategy can ensure a profit or protect against a loss, diversifying your investments is a strategy designed to help mitigate the risk of all your investments losing money at the same time by investing in different types of investments. Our proprietary approach diversifies you across asset classes, as well as investment sectors and styles.

***Conservative.*** Our risk-based approach is designed to reduce the likelihood of significant losses in volatile markets. The assumptions we make about portfolio returns in our projections emphasize disciplined saving and investing rather than outsized capital market returns.

***Forward-Looking.*** Rather than relying only on historical data (which may not have any relevance to future conditions), we incorporate forward-looking estimates for assumptions about investment returns and performance behavior.

***Institutional-Quality.*** The components of our retirement advice are based on factors generally used by professional money managers and adapted to the needs of the individual investor.

### **Advisory Services We Offer**

This brochure focuses on the services we provide to individual participants invested in employer-sponsored retirement plans or other retirement products, like individual retirement accounts ("IRAs") or health savings accounts ("HSAs") earmarked for retirement (each a "retirement account"). These services are intended for citizens or legal residents of the United States or its territories and are offered through retirement plan sponsors and/or plan providers, plan administrators, retirement product providers, and/or other investment advisers (each a "service provider"). You can obtain a copy of our brochure describing our products and services in our core capabilities of asset allocation, investment selection, and portfolio construction that we offer to institutions such as asset management firms, banks, broker/dealers, consultants, insurance companies, investment advisers, investment fiduciaries, plan sponsors of retirement plans, plan providers of retirement plan services, trusts, and other business entities by following the instructions above.

### **Managed Accounts**

Under Managed Accounts, Morningstar Investment Management proposes an investment strategy for your retirement account based on your personal and financial situation using the information you, your plan sponsor, service provider(s) and/or an account aggregator provides to us. This strategy typically includes a retirement income goal and recommended savings level, retirement age, and asset allocation target designed to help you meet your retirement goals. After creating your personal investment strategy, Morningstar Investment Management will select an investment-specific portfolio appropriate for your retirement account. We send transaction instructions to a service provider associated with your retirement account to implement the recommended retirement strategy in your retirement account.

If you choose the Managed Accounts service, the investment advice you receive is provided by either (1) Morningstar Investment Management or (2) Morningstar Investment Management and an investment adviser unaffiliated with us ("Other IA") who are each responsible for the provision of certain advice. In some instances, Morningstar Investment Management has engaged an Other IA to perform portfolio construction services on our behalf as a sub-adviser ("Sub-Adviser"). Your Investment Advisory Agreement details which entity or entities are responsible for the advice you receive.

If Morningstar Investment Management is solely responsible for the advice provided to you, you give us responsibility for managing your retirement account. We build the asset allocation portfolios for your retirement plan and then choose from the available investment options to create the investment-specific portfolios to which you can be assigned. We communicate these investment decisions to your service provider, who implements them for your retirement account. The investment options available for your retirement account are defined by your service provider, plan sponsor, or other party chosen by your plan sponsor.

Morningstar Investment Management acts as the independent "financial expert" (as defined in the Department of Labor's Advisory Opinion 2001-09A dated December 14, 2001, commonly known as the "SunAmerica Opinion") to other financial institutions who offer their own managed account programs to their clients. Under this service, we use the investment options available in the retirement plan or product to construct and monitor model portfolios designed for retirement investors across a broad range of risk exposure levels.

Under our Advisor Managed Accounts service, you give the responsibility for managing your retirement account to either (1) Morningstar Investment Management and the Other IA or (2) in those situations where a Sub-Adviser has been engaged, Morningstar Investment Management. The Other IA or Sub-Adviser is responsible for building the asset allocations for your retirement plan or product and choosing investments for the investment-specific portfolios. Morningstar Investment Management then uses our portfolio-assignment methodology to select an appropriate portfolio for you from those portfolios. If another financial institution or Other IA is solely or in part responsible for providing investment advice to you through Managed Accounts, you will need to obtain the financial institution's or Other IA's Firm Brochure for information about their services, fees, methodology, any conflicts of interest, and other important information. Please make sure you read this information carefully.

Please note, in instances where a Sub-Adviser is engaged, Morningstar Investment Management is responsible for the investment-specific portfolios available to you. No advisory relationship exists between you and the Sub-Adviser.

Managed Accounts includes ongoing investment management of your retirement account. Your recommended account holdings are typically reviewed on at least a quarterly basis, or whenever you provide us with additional or updated information about your personal or financial situation. As necessary, we will send transaction instructions to your service provider to rebalance or reallocate your account.

You should be aware that the investment options available to your retirement account could be associated with a service provider or Sub-Adviser. In such instances, the service provider or Sub-Adviser, or their affiliate, may receive compensation based on the assets in those investments. This gives your service provider or the Sub-Adviser an incentive to make those investments available or build portfolios using those investments.

**Please Note:** Your service provider may not be able to process rebalancing transactions if any investment option in your retirement account has any restriction (e.g., equity wash restriction) at the time the rebalancing transaction instruction is received by the service provider. In addition, rebalancing transaction instructions may be rejected if any data validation error exists on your account. In these instances, we will work with your service provider to resolve any issues and to rebalance your retirement account as quickly as possible. In some cases, your retirement account

will not be rebalanced until the next quarterly review period when all restrictions have been lifted and/or data validation errors have been corrected.

You will periodically receive progress reports reflecting your progress towards your retirement goals and other information in regard to your investments. Typically, these reports are available electronically through our website on a quarterly basis. You have the option to terminate Managed Accounts at any time without penalty.

Some service providers extend Managed Accounts to those approaching or in retirement. If your service provider offers this service and you meet the retirement criteria established by your service provider, your investment strategy may include a suggested amount that you can withdraw while striving to maintain income throughout retirement. It may also include information about allocating a portion of your account balance for the purchase of an annuity or other guaranteed income product.

***Personalized Strategy Report.*** On an annual basis, those eligible for, but not currently enrolled in Managed Accounts may receive a Personalized Strategy Report. Using data provided by your plan sponsor or service provider, we outline a retirement strategy that we feel is appropriate for you based on the information available to us.

### **Advice**

Under Advice, you are provided with information designed to help you make your own investment choices regarding your retirement account assets. Like Managed Accounts, you'll receive a personal investment strategy, which includes asset allocation targets appropriate for your retirement account. You also receive investment-specific recommendations for your strategy using the investment options available to your retirement plan or product.

If Morningstar Investment Management is solely responsible for the advice provided to you under the Advice service, Morningstar Investment Management builds the asset allocation and investment-specific portfolios and recommends a specific portfolio for you. We build the asset allocation portfolios for your retirement plan or product and then choose from the available investment options to create the investment-specific portfolios available to you. The investments options available in your retirement plan or product are defined by your service provider, plan sponsor, or other party chosen by your plan sponsor.

Morningstar Investment Management acts as the independent "financial expert" to other financial institutions who offer their own advice services to their clients. Under this service, we use the investment options available in the retirement plan or product to construct and monitor model portfolios designed for retirement investors across a broad range of risk exposure levels.

Under our Advisor Managed Accounts service, the advice you receive is provided by (1) Morningstar Investment Management and an Other IA or (2) in those situations where a Sub-Adviser has been engaged, Morningstar Investment Management. The Other IA or Sub-Adviser is responsible for building the asset allocation and investment-specific portfolios. Morningstar Investment Management then uses our portfolio-assignment methodology to select an appropriate portfolio for you from those portfolios. Your Investment Advisory Agreement details which entity or entities are responsible for the advice you receive through Advice.

If another financial institution or Other IA is solely or in part responsible for providing investment advice to you through Advice, you will need to obtain the financial institution's or Other IA's Firm Brochure for information about their services, fees, methodology, any conflicts of interest, and other important information. Please make sure you read this information carefully.

Advice provides a point-in-time recommendation; once you receive a recommendation, the advisory relationship between you and Morningstar Investment Management or, if applicable, the Other IA ends. (Please note, no advisory relationship exists between you and the Sub-Adviser, if applicable.) Under Advice, the actual investment decisions you make are not monitored or reviewed, your

retirement account is not monitored, reviewed or updated on an ongoing basis, and you do not receive updated recommendations or projections. However, you can return at any time to receive new recommendations and projections.

Some service providers extend Advice to those who are approaching or are in retirement. If your service provider offers this service and you meet the retirement criteria established by your service provider, your investment strategy may include a suggested amount that you can withdraw while striving to maintain income throughout retirement. It may also include information about allocating a portion of your account balance for the purchase of an annuity or other guaranteed income product.

### **Guidance**

Under Guidance, Morningstar Investment Management provides information designed to help you make your own investment choices regarding your retirement account assets. Like Managed Accounts and Advice, we will propose an investment strategy based on your personal and financial situation, using the information you, your service provider, an account aggregator, and/or your plan sponsor provided to us. After creating your personal investment strategy, we provide asset allocation targets appropriate for your retirement account.

Guidance is an educational, point-in-time service. Under Guidance the actual investment decisions you make are not monitored or reviewed, your retirement account is not monitored, reviewed or updated on an ongoing basis, and you do not receive updated asset allocation targets or projections. However, you can return to the service at any time to receive updated asset allocation targets and projections.

Guidance is not available under the Advisor Managed Accounts service.

### **Outside Account Guidance**

Through Managed Accounts and Advice, you can enter information about assets in other accounts you have earmarked for use in retirement ("Outside Accounts".) If you enter Outside Accounts, you will receive an asset allocation recommendation for those accounts as a whole. This information should not be considered advice to buy or sell a particular investment. You are responsible for determining whether any particular investment is suitable for you.

We cannot monitor, review or update our suggestions or projections for Outside Accounts on an on-going basis, nor do we have the capability to monitor or review investment decisions you make in Outside Accounts. Because our services and recommendations depend on the completeness, accuracy, and timeliness of the information you, your service provider, plan sponsor, or an account aggregator provide, you are solely responsible for reviewing and updating your individual financial information. You are responsible for tracking your Outside Accounts and the market to be aware of any changes in the value of your Outside Accounts, and providing that information to us as changes occur. Until you do, we will continue to make recommendations for your retirement account in accordance with the information we have on file.

There is no additional fee to receive an Outside Accounts recommendation, however, you could incur redemption fees, transaction costs, other investment or account level charges and expenses, and/or tax consequences for any changes in the investments in your Outside Accounts. You should consult with a professional financial adviser or tax adviser if you have any questions prior to making any investment decisions.

Morningstar® ByAllAccounts®, an account aggregation service offered by Morningstar, is integrated with our Managed Accounts and Advice services. ByAllAccounts gives you the option to link Outside Accounts to the Managed Accounts or Advice services so that your account balances and investment holdings are reported on your behalf. If you use ByAllAccounts, your Outside Account information can be refreshed each time you visit our service. For Managed Accounts users, we encourage you to visit our service regularly (i.e., at least once a quarter) so that we have current and accurate information about your financial situation. Note:

Account availability is determined by your Outside Account's custodian. All account custodians may not be available through ByAllAccounts.

### Customized Services

Under Managed Accounts and Advice, advice is provided based on the investment options (e.g., mutual funds, including money market funds and stable value funds, annuities, collective investment trusts, and/or exchange-traded funds) available in your retirement plan or product, as defined by your service provider or plan sponsor. If Morningstar Investment Management is responsible for investment selection, our selections are based on qualitative factors and quantitative analysis in addition to the judgment of our analysts. If an Other IA is responsible for investment selection under Advisor Managed Accounts, their selection methodology will be described in their Firm Brochure. If a Sub-Adviser is responsible for investment selection under Advisor Managed Accounts, their selection methodology will be described herein.

If you choose, you may ask us to exclude specific investment options from your Managed Accounts or Advice recommendations. However, if your requested restriction(s) prevent the building of an adequately diversified portfolio, you will need to remove some restrictions in order to use Managed Accounts or Advice.

We believe that holding the stock of your employer greatly increases your portfolio risk, particularly in large concentrations. Prudent financial planning principles hold that any significant investment in a single stock creates a non-diversified situation in your portfolio with greater risk of investment losses. If your retirement plan or product includes your company's stock as an investment option, and if you have a portion of your retirement account allocated to your company's stock upon enrolling in Managed Accounts or Advice, we will recommend that you do not make additional investments in the company stock. Unless your company stock holdings are restricted due to a plan or product provision or a restriction imposed by your service provider or plan sponsor, at your direction we will decrease your allocation in your company's stock down to zero, using the strategy outlined in your advisory agreement. You have the option to retain all or a portion of the company stock. If you choose to retain your investment in the company stock, we will not be responsible for that portion of your retirement account, although we take it into consideration when creating your investment strategy.

### Morningstar® Retirement Manager<sup>SM</sup>

Morningstar® Retirement Manager<sup>SM</sup> is an online platform designed to help retirement investors make better decisions about investing in their retirement accounts. Managed Accounts, Advice, and Guidance are available through Morningstar Retirement Manager. Plan sponsors or service providers can choose to offer one or more of these services available.

**The Morningstar Retirement Manager platform and/or the services offered through it can be branded under different names chosen by our service provider clients. These names include, but are not limited to, "Managed by Morningstar" (Managed Accounts), "Managed by You" (Advice), "Managed Advice" (Managed Accounts), or "Personalized Portfolios" (Managed Accounts or Advice). If you access a version of our platform with a customized name, please note that we use Managed Accounts, Advice, and Guidance throughout this document, but the information included still applies to your service. Please contact your plan sponsor, service provider, or Morningstar Investment Management if you are unsure what service option(s) apply to you.**

### Advisor Managed Accounts

Morningstar Investment Management uses the product name "Advisor Managed Accounts" when Managed Accounts and/or Advice includes advice from (1) both Morningstar Investment Management and an Other IA or (2) Morningstar Investment Management with portfolio construction services performed on our behalf by a Sub-Adviser. The plan sponsor or service provider chooses the Other IA or Sub-Adviser and whether to offer one or both services to plan participants. **As noted above, customized names (like "Personalized Portfolios") can be used throughout the online platform instead of Managed Accounts or Advice.**

### Wrap Fee Programs

We do not sponsor a wrap fee program, but we do provide portfolio management services to a wrap fee program offered by our subsidiary, Morningstar Investment Services LLC.

### Assets Under Management

As of December 31, 2022, our discretionary assets under management (rounded to the nearest \$100,000) were:

Retirement Services to Individuals: \$20,507,900,000  
Investment Management Services to Institutional Clients:  
\$31,407,900,000

Total Asset Under Management: \$51,915,800,000

Non-discretionary assets under advisement (rounded to the nearest \$100,000) were: \$159,525,900,000

## Item 5. Fees and Compensation

### Fees and Compensation

Morningstar Investment Management's fee is generally negotiated by your service provider or plan sponsor. The actual fee depends on a range of variables including the service used and retirement account balance. In some cases, our fee may be paid by your plan sponsor or service provider or may be part of the fees of the underlying investment options your retirement account is invested in. To view your specific fee schedule and method of paying those fees, you can access your account through our website or consult with your plan sponsor or service provider(s) for more information or if you have questions. You have the option to terminate your advisory relationship with us at any time without penalty.

*Managed Accounts.* For Managed Accounts, your retirement account will be charged a fee based on the assets managed under the service in your retirement account. This fee is expressed in "basis points." A basis point is equivalent to 0.01%; 100 basis points is equivalent to 1%.

Morningstar Investment Management's fee is generally less than 50 basis points, and typically ranges from 10 to 50 basis points annually. For example, if your retirement account balance is around \$50,000, your annual fee would be less than \$250. This fee is charged monthly or quarterly, in arrears or in advance, depending on the capabilities of your service provider and are detailed in your advisory agreement with us. Your fee is calculated by applying the basis point rate to the assets in your retirement account in accordance with the terms of your agreement with us. As an example, your fee could be based on the average assets in your retirement account over the course of a quarter or based on the assets as of the month-end. In some cases, new Managed Accounts users are offered a "free look" period. During the free look period, Morningstar Investment Management's fee will be waived for a specific timeframe, as detailed in your agreement with us.

Under Advisor Managed Accounts, the Other IA charges a separate fee for their services. Morningstar Investment Management is not involved in the setting or negotiation of this fee between your service provider or plan sponsor and the Other IA. This fee is a basis point fee applied to your retirement account balance (typically 0 to 30 basis points annually) or a basis point or flat annual fee charged to your plan. Please check with your plan sponsor or service(s) provider for further information about these fees.

In instances where a Sub-Adviser has been engaged to undertake portfolio construction, the portfolios they create will typically consist of associated investment products in which they receive compensation based on the amount of assets invested. For example, the Sub-Adviser acts as investment adviser to mutual funds used in creating the portfolios and receives asset-based compensation from the funds related to the investment management activities they perform for the funds.

Our services can be terminated without penalty at any time as outlined in your Managed Accounts contractual agreement. Upon termination, any earned, unpaid fees by you are due and payable.

In some cases, your service provider(s) may charge an administrative user fee. Please check with your plan sponsor or service provider(s) for specific fee information for your plan.

*Advice and Guidance.* Morningstar Investment Management does not charge you a fee to use Advice or Guidance. However, in some cases, your service provider(s) may charge an administrative user fee. Please check with your plan sponsor or service provider(s) for your specific fee information.

If a Sub-Adviser has been engaged for Advice, the portfolios they create will typically consist of associated investment products in which they receive compensation based on the amount of assets invested.

### **Payment**

For Managed Accounts, your service provider will typically debit our fee from your retirement account and remit that fee to us. As noted above, in some cases, your plan sponsor or service provider will pay us for our services, or our fee will be a component of the fees charged by the investment options you are invested in. Your advisory agreement with us will include the details of how and when our fee is charged to you. Under Advisor Managed Accounts, your plan provider will typically also debit the Other IA's fee from your retirement account and remit it to them. If you have questions about how the Other IA's fee is assessed and remitted, please contact your plan sponsor or service provider(s).

### **Other Costs in Connection with Our Advisory Services**

Morningstar Investment Management's fee is separate from fees and expenses charged by the investment options or fees that are charged by a third party, such as your service provider(s). The investment options' fees and expenses are described in the investment's prospectus or equivalent. These fees will generally include a management fee, other investment expenses, and possibly a distribution fee (e.g., 12b-1). Annuities typically have additional fees, such as surrender charges, mortality and expense risk charges for death benefits or payout options like guaranteed income for life, administrative fees, underlying fund expenses related to investment sub-accounts, and other charges for special features, like guaranteed minimum income benefits, principal protection, or stepped-up death benefits. In some cases, an investment option may also charge an initial or deferred sales charge. Neither Morningstar Investment Management nor any of our employees receive transaction-based compensation for the investment recommendations we make. You may incur custodian, brokerage, and other transaction costs from third parties. Your plan provider or recordkeeper can provide you with specific fee information for your plan.

You may have the option to purchase investment products we recommend or similar services through other investment advisers or financial professionals not affiliated with us.

### **Compensation from Sales of Securities**

Morningstar Investment Management does not expect, accept or receive compensation for the sale of securities, including asset-based sales charges or service fees from the sale of open-end mutual funds, used in the Managed Accounts, Advice, or Guidance services.

### **Revenue Sharing Arrangements**

Morningstar Investment Management does not have any revenue sharing arrangements with any registered investment advisers or mutual funds.

## **Item 6. Performance Based Fees and Side-by-Side Management**

Morningstar Investment Management does not have performance-based fee arrangements (fees based on a share of capital gains or on capital appreciation of the assets in your account) with any qualified client pursuant to Rule 205-3 under the

Advisers Act. Therefore, we do not manage any performance-based fee accounts side-by-side with non-performance-based fee accounts.

## **Item 7. Types of Clients**

In addition to the retirement services for individuals described in this brochure, we also provide investment advisory services to institutional clients such as financial institutions, third-party investment advisers, broker/dealers, consultants, investment companies, pension or profit-sharing plans, or other business entities ("Institutional Clients"). If you would like a copy of our brochure describing these services, please follow the instructions on page 1 of this brochure to access the SEC website or contact us.

The Managed Account, Advice and Guidance services are only available to individuals with retirement accounts. We do not require a minimum account balance to use our services, and we generally do not impose any other conditions on your use of our services.

## **Item 8. Methods of Analysis, Investment Strategies, & Risk of Loss**

### **Investment Philosophy**

Morningstar Investment Management group's investment philosophy is driven by the investment principles that are promoted throughout our organization. The principles are intended to guide our thinking, behavior and decision making. These principles also reflect and align with the history and foundation of Morningstar and are described above in the Firm Information section.

### **Morningstar Retirement<sup>SM</sup> Investment Policy Committee**

The Morningstar Retirement Investment Policy Committee is responsible for oversight of the investment methodologies across the Morningstar Retirement's products and services, including those described in this brochure. Members of the Morningstar Retirement Investment Policy Committee include Morningstar Investment Management's chief investment officers and portfolio managers, investment analysts, and the director of automated portfolio solutions.

The investment advice used in the products and services referenced in this brochure from Morningstar Investment Management is provided by an investment team. Information on key members of this investment team is included in the attached Brochure Supplement. For Advisor Managed Accounts, the Other IA has their own Brochure Supplement that you should obtain and review.

### **Data**

While Managed Accounts, Advice, and Guidance use a powerful robo-advice program for evaluating your goals, the appropriateness of the advice you receive is dependent on the personal information we receive from you, your service provider, and/or the account aggregation services described in the Outside Account Guidance section above. While we strive to provide the most accurate and timely economic forecast and financial information, we depend on you to provide the most accurate assessment of your financial status and goals. We will collect relevant personal and financial data about you (and, if applicable, your spouse or partner) that can include your age, retirement income goal, state of residence, retirement account balance, projected or actual social security amount, any outstanding loans from your retirement account, balances of any other investment accounts intended for retirement, expected pensions, and balances in company stock. This information is collected in order to personalize the advice you receive.

In creating your strategy, the more information you provide to us, the more personalized the investment strategy we are able to deliver. We collect information your service provider is able to provide to us and ask you to provide any additional data that wasn't available from your service provider. Through our website or over the phone, you will be presented with an initial strategy as a starting point. You can model many scenarios by changing your retirement age, desired retirement income, social security start age, and savings rate. We will update your retirement strategy in real time to reflect any change you make. We also encourage you to provide additional account information in regard to your retirement savings such as assets you hold outside your retirement account or benefits for you or your spouse/partner

in order to further personalize the recommendations. We do not provide advice on outside assets but will take those into consideration when determining the investment strategy for your retirement account assets.

**Enrollment.** Your service provider has the option to make one or more websites available to you for enrollment in Managed Accounts. If you use a streamlined version of our enrollment process, you should be aware that it does not consider all information relevant to your financial situation, including some of the information discussed in this section. (The streamlined process takes into account your age, retirement account type, and the balance, fund allocation, and contributions for your retirement account as provided by your service provider.) You can access our full enrollment process at any time by logging into the Morningstar® Retirement Manager<sup>SM</sup> platform through your service provider's website. The full enrollment process allows you to provide us with additional information about your retirement situation and goals so that we can further customize your retirement strategy. If you have additional retirement assets outside your retirement account, have a spouse or partner you'd like us to consider, want to restrict certain securities from being used in your retirement account, or want to change suggestions made for you in the streamlined enrollment process (i.e., your savings rate), or if you want to see how changes would impact your retirement strategy, we encourage you to use our full enrollment process instead of the streamlined process.

### Analysis Methods

**Morningstar Investment Management's Analysis Methods.** Where we are responsible for creating the asset allocation and investment specific portfolios used in our services, we review available quantitative data to analyze and screen the investment options available to us, which are typically constrained to a universe defined by your plan sponsor or service provider. We also apply qualitative analysis by our investment professionals, such as evaluations of investment managers, portfolios and individual investments. We combine this information with other factors—including actuarial data, stock market exposure, probability analysis, and mean-variance optimization—into a proprietary software program to analyze a complex set of market data and variables. The result is an advanced model, or robo-adviser, which can provide investment recommendations and a projection of different outcomes.

We use a combination of portfolios and customizations as part of a larger portfolio construction process. For Managed Accounts and Advice, we generate hundreds of unique portfolios (ranging from conservative to aggressive) for each retirement plan or product using a customized approach to blending traditional asset allocation models with liability-driven investing and decumulation strategies. Which asset classes and sub-asset classes are used to build these model portfolios is dependent on the specific investment options available to us. Using this model, we develop an investment strategy tailored to your investment goals, as described below, and assign you to one of those portfolios.

We start with all of the available information we receive from your service provider and/or you and then make assumptions about certain pieces of information. You have the ability to review and refine some of these assumed data points through our website or over the phone. These assumptions can have a significant impact on the strategies created for you and are related to social security income, salary growth, inflation rates, retirement income goal, and risk capacity. We combine this information with other factors into a proprietary software program that can provide investment recommendations and a projection of different outcomes.

We use a concept called total wealth to determine your risk capacity. This helps us determine an appropriate target risk level for your retirement account by considering your risk exposure in all your other accounts that you've told us about that are earmarked for retirement. Our total wealth methodology accounts for your financial capital (total saved assets and tradeable assets such as stocks and bonds) as well as your human capital (future earnings and savings potential). Using this methodology, we assign a target risk level based on your total economic worth. If made available to you by your service provider, you can also complete an optional risk

tolerance questionnaire that could result in further adjustments to your investment strategy.

In general, human capital is a large percentage of total wealth for younger investors, which means attaining the overall market portfolio allocation (the optimal portfolio for every investor based upon each asset's current market value) typically requires younger investors to allocate their financial portfolio more heavily in equities. As the investor ages, the human capital portion of total wealth declines, which means that older investors generally should consider investing their financial portfolios more heavily in fixed-income investments, resulting in a more conservative risk capacity.

If made available to you through your service provider, you also have the option to complete a risk tolerance questionnaire, which helps you think about your attitude towards risk. Risk tolerance is a personality trait based partly on genetics and partly on life experience. Typically risk tolerance decreases slowly with age and may be changed by major life events. We encourage you to retest your risk tolerance every two to three years and after any major life event.

We use the FinaMetrica risk profiling methodology, which is built using 'psychometrics', a combination of psychology and statistics. While the science of creating psychometric questionnaires is complex, it can provide a picture of who you are and where you fit on the scale of a conservative to high risk-taker. After completing the risk tolerance questionnaire, your results will be a score ranging from 0 (very low risk group) to 100 (very high risk group). Although the scoring is objective, subjectivity cannot be completely eliminated using planning tools like this. There is no guarantee that the risk tolerance questionnaire will accurately assess your tolerance to risk and the accuracy of the analysis is contingent upon the appropriateness and accuracy of the assumptions. The risk tolerance questionnaire does not collect or consider all potentially relevant details about your personal or financial situation, which is why we pair it with our total wealth methodology.

After completing the risk tolerance questionnaire, your score will account for a 20% weighting in our target equity determination for your investment strategy, with the other 80% weighting coming from your total wealth determination.

The target risk level changes over time to help ensure you are still investing in a portfolio for your specific situation and risk capacity. In general, we try to provide a smooth transition from an aggressive equity portfolio to a more conservative fixed portfolio as you near retirement.

Your strategy considers the following items when building a target equity allocation for your retirement account, but they are restricted from our investment selection process: outside investment accounts you own, assets designated as "restricted" or "frozen" by your employer, assets you have chosen to retain in company stock, funds affiliated with Morningstar or its subsidiaries, or custom funds created specifically for your plan.

If made available by your service provider, you have the option to complete an annuity questionnaire. Through this questionnaire you can indicate whether you would like to receive a recommendation for how much of your retirement account could be invested in an annuity while still aligning with our investment strategy. We do not recommend, endorse, or sell any specific annuity products as part of this allocation recommendation and do not provide advisory or discretionary investment management services to assets invested in an annuity. If requested by your plan sponsor or service provider, we will integrate access to an annuity marketplace or provider into our platform to help you facilitate your decision to purchase an annuity, if you choose to do so. In such instances, the annuity or annuities available to you are chosen by your plan sponsor or service provider and we had no role in selecting those annuities. An annuity allocation recommendation is only available through the Managed Accounts service.

If you are accumulating for retirement savings, our investment strategy is generally based on information such as your retirement account balance, expected retirement age, contribution rate and other preferences you may have. If you have already retired,

and if your service provider offers Managed Accounts or Advice while you are in retirement, our strategy is based on information such as your current account balance, additional cash flows and life expectancy. This retirement strategy may include some or all of the following:

*Retirement Income Goal (accumulation phase)*

We define your retirement income goal as the projected amount of money that you will need during retirement. We calculate this amount based on your current income, adjusted to reflect the estimated dollar value at your retirement age. Typically, we use an amount equal to 100% of your take-home pay (although some plan providers request we use a different rate, e.g., 80% of your gross pay), and then project the value of that amount at your retirement age to determine your retirement income goal. You have the option to change this projected retirement income goal amount.

*Income Outlook (accumulation phase)*

We define the income outlook as a projection of the annual income that you may receive during retirement. We base this on an annualized view of the investment wealth you accumulate, combined with social security benefits and any pension or other income you might receive.

*Total Retirement Income (in-retirement phase)*

If your service provider offers the services described above while you are in retirement, we define your total retirement income as the projected amount of money, typically at some level of probability that you can expect to receive on an annual basis in order to maintain income throughout retirement.

**IMPORTANT:** When we determine the income projections described above, these projections are based on hypothetical performance data and do not represent actual or guaranteed results. Your projections may vary over time with each additional use of our service.

We believe in creating a customized long-term asset allocation based on your risk capacity. Changes in your financial situation, such as the addition of Outside Accounts, pension benefits, or contribution rates, are likely to result in a change to your asset allocation. In addition, changes to your personal situation, such as the addition of a spouse or partner or a different retirement age, could also impact your asset allocation. We encourage you to update the information you have on file with us in such events, so that we can update your asset allocation accordingly. If you use Managed Accounts, we will typically review portfolios on a quarterly basis to determine if market shifts require us to rebalance your account. On an annual basis, we will re-run our analysis of your future wealth forecast. If you use Advice or Guidance, we encourage you to re-enter our website on a periodic or as-needed basis, in order to review your information and receive an updated strategy. At a minimum, we recommend that you receive an updated strategy on an annual basis.

*Other IA's Analysis Methods.* For Advisor Managed Accounts where an Other IA is responsible for reviewing and selecting from the investment options within your plan, the Other IA's methodologies and methods of analysis can be found in their Other IA's Firm Brochure.

*Sub-Advisor's Analysis Methods.* For Advisor Managed Accounts where a Sub-Advisor has been engaged to perform portfolio construction services, the Sub-Advisor will build portfolios based on our pre-determined equity targets using investment options they designate based on their methods of investment analysis. (As noted above, the Sub-Advisor will generally use their associated investment options and will not select from the full universe of investments available to you. To do this, your plan sponsor or service provider must make the Sub-Advisor's investment options available as part of your retirement plan lineup or product universe.) These portfolios will be blended to create the portfolios available to you, as described in the section above on our analysis methods. It is our responsibility to ensure the portfolios available to you meet appropriate standards, therefore, we reserve the right to modify the portfolios provided by the Sub-Advisor.

## Key Assumptions

Morningstar Investment Management makes assumptions about certain pieces of information that have a significant impact on the strategy we will create for you. In particular, these assumptions relate to inflation rates, retirement income goals, federal/state/capital gains/other taxes and your risk capacity, social security amounts (if you are not yet retired), and salary growth.

*Social Security*

We can incorporate Social Security for you and, if applicable, your spouse/partner, using an estimate based on calculations/formulas from the Social Security Administration or a number you input from your Social Security statement. Social Security payments are inflated using a simulated cost-of-living allowance designed to replicate the actual Social Security Administration ("SSA") formulas and are applied at the maximum benefit age as defined by the SSA. We account for reduction in payments while working in retirement, increases in benefits for the spouse 50% rule and increased benefits for the surviving spouse 100% rule. The program assumes you complete all applications required to collect the maximum benefit. We also take Social Security into consideration while analyzing income replacement. We default to the age at which you will receive full benefits from the SSA, but you can adjust the benefit amount and start age if desired, however, the start age must be between 62 and 70.

*Salary Growth*

To estimate future salary, we use a salary growth curve based on academic research rather than assuming a single, fixed growth rate. This curve takes into account the fact that salaries tend to grow most rapidly for young employees, peak around age 51, and then slightly decline later in life.

*Retirement Age*

We assume a default retirement age of 67, or your current age plus one year if you are older than 67. You have the option to change this to a different retirement age.

*Income Projections*

Your income projection is the level of annual income we project you have at least a 70% chance of achieving and is calculated for both your current strategy and our proposed strategy. We use forecasts for investment returns, portfolio risk, and correlation for each of 12 asset classes and an average expense ratio for each asset class to estimate investment fees. The projections consider different scenarios for your life span, based on standard published mortality tables (based on the Society of Actuaries Individual Annuity Mortality (IAM) table). We assume that your risk capacity (and corresponding asset allocation) will change over time, generally growing more conservative as you approach retirement, and that your savings rate will not change.

*Estimated Tax*

We estimate federal and state income, and capital gains taxes based on marginal tax rate calculations. Tax data is updated annually based on U.S. Internal Revenue Code (IRC) and similar state tax data. We use income data for you, as well as for your spouse/partner, if applicable, to estimate federal and state tax exposure. Tax exposure is appropriately reduced for pretax deferrals, tax-deferred capital gains, and yield and distribution of Roth proceeds. Based on the information we know about you, we estimate your tax exposure, but do not include all tax considerations. Our recommendations are made without taking into consideration potential tax consequences and we do not provide tax advice. Potential tax consequences can exist. We encourage you to consult with a tax professional about these and other tax consequences.

*Inflation Assumptions*

When projecting the growth of various income sources and expenses, we use a variety of different inflation rates. These rates are reviewed and updated annually by our research team. Different inflation rates are used for different projections and major expenses. We believe that our multifaceted approach to calculating inflation results in more realistic and more accurate projections compared with using one set rate.

*IRS Limitations and Application of Penalties*

We incorporate all IRS contribution limits, eligibility requirements, and withdrawal penalties into the retirement strategies.

*Brokerage Account*

Some retirement plans allow participants to maintain a brokerage account within the plan. If your plan allows this option, you will be responsible for managing and monitoring those assets. We do not manage brokerage account assets; however, if you provide us with detailed information on the holdings within the brokerage account, our methodology will consider these holdings in developing an appropriate investment strategy for your retirement account. If you do not provide detailed information, our methodology will assume that the balance in the brokerage account is 45% stocks and 55% fixed income.

**Risk of Loss and Strategy Risk**

We determine a risk strategy for you based on several factors, such as your current age and time until retirement, gender, salary, total current wealth, deferral rate, and retirement goals. If you have retired or are approaching retirement, and if you have the opportunity to purchase an annuity, the risk strategy also considers your longevity and liquidity needs. Your risk level corresponds to an asset mix, or the combination of stocks, bonds and cash, that will serve as the basis for our recommendations of specific funds appropriate for you.

You should remember that investments in securities involve market risk, risk of loss, and other risks, and will not always be profitable. We do not guarantee that the intended objectives of our recommendations will result in achieving your retirement income goal. We cannot guarantee that negative returns can or will be avoided in any of our recommendations. We do not represent or guarantee that our investment recommendations can or will predict future results, will successfully identify market highs or lows, or will result in a profit or protect clients from loss. An investment's future performance may differ substantially from its historical performance, which is no indication of future performance. A security's investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. We are unable to predict or forecast market fluctuations or other uncertainties that may affect the value of any investment.

Our investment strategy is intended to provide you with an investment portfolio that is diversified across various asset classes and appropriate based on your facts and circumstances. Asset allocation and diversification are investment strategies which spread assets across various investment types for long-term investing. However, as with all investment strategies, these strategies do not ensure a profit and do not guarantee against losses.

Capital market assumptions are forecasts which involve known and unknown risks, uncertainties, and other factors which may cause the actual results to differ materially and/or substantially from any future results, performance, or achievements expressed or implied by those projections for any reason. Past performance does not guarantee future results.

Income projections used in our services are based on hypothetical performance data and do not represent actual or guaranteed results. Projections may vary over time and with each use of our service.

If applicable under Advisor Managed Accounts, your plan sponsor or service provider is responsible for choosing and monitoring the Other IA. In making our portfolio recommendations, we are limited to those portfolios created by the Other IA. We do not have any input over the choice of the Other IA, nor do we review the Other IA's asset allocation or portfolio creation methodologies or investment selection process.

If applicable under Advisor Managed Accounts, your plan sponsor or service provider is responsible for choosing the Sub-Adviser but Morningstar Investment Management must agree to engage and is responsible for ongoing monitoring of the Sub-Adviser. In making portfolio recommendations, we are limited to those portfolios

created by the Sub-Adviser but have discretion to reject or edit those portfolios if we feel necessary.

**Information Sources**

Where we are responsible for investment selection, our global resources used in the formulation of our advisory services go down to our roots—the data and analysis from Morningstar, Inc. that form the base of our investment process. This expansive, in-house network of global data and investment analysis spans asset classes and regions to help drive timely new ideas. Morningstar or its affiliates have more than 600-plus analysts and makes data available on more than 600,000 investment options. The extensive data, analysis, and methodologies from these resources, along with external research reports, data, and interviews with investment managers are combined with financial publications, annual reports, prospectuses, press releases, and SEC filings to serve as the basis of our primary sources of information.

For some of our services, we combine this information with other factors—including actuarial data, stock market exposure, probability analysis, and mean-variance optimization—into a proprietary software program to analyze a complex set of market data and variables that results in an advanced model that can provide investment recommendations and a projection of different outcomes.

**Security Type Risks***Mutual Funds*

Investments in mutual funds involve risk, including loss of principal as a result of changing market and economic conditions and will not always be profitable.

*Money Market Funds*

A money market fund may impose a fee upon the sale of shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below a required minimum because of market conditions or other factors. An investment in a money-market vehicle is not insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. For most money market funds, their sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time. Although some money market funds seek to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. It is possible to lose money by investing in money market funds.

*Stable Value Funds and Guaranteed Investment Contracts ("GICs")*

The interest rate on a stable value fund or GIC is typically only guaranteed for a certain amount of time and may vary with changing market conditions. Withdrawal fees or penalties, sometimes substantial, may be charged if you decided to move money out of a stable value fund or GIC. Stable value funds and GICs are less likely to provide long-term protection against inflation, as compared to other options.

*Exchange-traded Funds*

ETFs, like all investments, carry certain risks that may adversely affect their net asset value, market price, and/or performance. An ETF's net asset value (NAV) will fluctuate in response to market activity. Because ETFs are traded throughout the day and the price is determined by market forces, the market price you pay for an ETF may be more or less than the NAV. Because ETFs are not actively managed, their value may be affected by a general decline in the U.S. market segments relating to their underlying indexes. Similarly, an imperfect match between an ETF's holdings and those of its underlying index may cause its performance to not match the performance of its underlying index. Like other concentrated investments, an ETF with concentrated holdings may be more vulnerable to specific economic, political, or regulatory events than an ETF that mirrors the general U.S. market.

*Annuities*

An annuity is a tax-deferred investment structured to convert a sum of money into a series of payments over time. Annuity contracts have limitations and are not viewed as short-term liquid investments. An insurance company's fulfillment of a commitment to pay a death or living benefit, a schedule of payments, a fixed investment amount guaranteed by the insurance company, or another form of

guarantee depends on the claims-paying ability of the issuing insurance company. Any such guarantee does not affect or apply to the investment return or principal value of the separate account and its subaccount(s). The financial ratings quoted for an insurance company do not apply to the separate account and its subaccount(s). The insurance company offering an annuity will charge several fees to investors, including annual contract charges that compensate the insurance company for the cost of maintaining and administering the annuity contract, mortality and expense risk charges based on a percentage of a subaccount's assets to cover costs associated with mortality and expense risk, and administration fees that are based on a percentage of a subaccount's assets to cover the costs involved in offering and administering the subaccount. An annuity investor can also be charged a front-end load by the insurance company on their initial contribution, ongoing fees related to the management of the fund, and surrender charges (which can be substantial) if the investor makes a withdrawal prior to a specified time. If the annuity subaccount is invested in a money-market fund, the money market fund is not FDIC-insured, may lose money, and is not guaranteed by a bank or other financial institution. Annuities can be complicated, and an investor should carefully read the insurance company's offering material to understand how a specific annuity's return will be determined.

Variable Annuities have a rate of return that varies with underlying investment options in the market, and do not include a guarantee from the insurance company that you will earn a return.

Fixed annuities have a predetermined rate of return an investor earns and a fixed income payout that is guaranteed by the issuing investment company and may be immediate or deferred. Payouts may last for a specific period or for the life of the investor. Investments in a deferred fixed annuity grow tax-deferred with income tax incurred upon withdrawal, and do not depend on the stock market. Fixed annuities typically do not have cost-of-living payment adjustments and are regulated by state insurance commissioners.

Fixed indexed annuities, also called equity index annuities, are a combination of the characteristics of both fixed and variable annuities. Fixed indexed annuities offer a predetermined rate of return like a fixed annuity, but they also allow for participation in the stock market, like a variable annuity. Fixed indexed annuities are typically riskier and offer the potential for greater return than fixed annuities, but less so than a variable annuity. Investments in a fixed indexed annuity grow tax-deferred with income tax incurred upon withdrawal and are regulated by state insurance commissioners.

### Methodology Updates

Our capital market assumptions and investment policy committees typically meet monthly. These committees have oversight for their respective areas of expertise. If any of these committees makes an adjustment, the changes are thoroughly reviewed and tested before being implemented. These changes are manifested in portfolios through expected future returns, and asset allocations. Capital market assumptions are updated on an annual basis. We also update our methodologies with updated tax limits on an annual basis. Asset allocation and advice methodologies are updated when there is a regulatory change that requires an update or when research we have completed warrants enhancing our asset allocation process or advice methodology.

### Item 9. Disciplinary Information

We are required to disclose all material facts in regard to any legal or disciplinary events that would influence a potential client to engage us. We do not have any material legal or disciplinary events to disclose.

### Item 10. Other Financial Industry Activities and Affiliations

Morningstar Investment Management is a wholly owned subsidiary of Morningstar. Our offerings center around advisory services in our core capabilities of asset allocation, investment selection, and portfolio construction that we offer to individual investors and institutions.

Our portfolio managers and their team members who are responsible for the day-to-day management of our portfolios are paid a base salary plus a discretionary bonus.

The bonus is fully or partially determined by a combination of the investment management business unit's overall revenue and profitability, Morningstar's overall annual revenue and profitability, and the individual's contribution to the business unit. For many of our advisory services, the universe of investment options from which we make our investment selections is defined by our Institutional Client. In some cases, this universe of investment options includes proprietary investment options of the Institutional Client. To mitigate any actual or potential conflict of interests presented by this situation, we subject all investment options to the same quantitative and qualitative investment selection methodology, based on several factors, including performance, risk, and expense so that the proprietary nature of an investment option does not influence our selection.

We provide consulting or advisory services to Institutional Clients that offer registered or pooled investment products, such as mutual funds, variable annuities, collective investment trusts, or model portfolios. To mitigate the conflict of interest presented by our role in these investment products, we exclude such investment products from the universe of investment options from which we make our recommendations to other clients.

Morningstar Funds Trust is registered with the SEC as an open-end management investment company under the Investment Company Act of 1940, as amended, and has retained us as its investment adviser. The funds within the Morningstar Funds Trust will be used as the underlying holdings for certain Morningstar Wealth portfolios, most notably the mutual fund model portfolios series. The funds within the Morningstar Funds Trust can only be utilized in connection with the model portfolios and separately managed accounts offered by Morningstar's Investment Management group. To mitigate the conflict of interest presented by our role in these investment products, we exclude such investment products from the universe of investment options from which we make our recommendations to other clients, including participants in Managed Accounts and Advice. For more information about the Morningstar Funds Trust, please request a copy of our Institutional Advisory Services brochure and visit <http://connect.rightprospectus.com/Morningstar> to view the prospectus.

Morningstar Investment Management is registered as a Commodity Pool Operator with the Commodity Futures Trading Commission. Some of Morningstar Investment Management's employees are registered with the National Futures Association as principals or associated persons.

We receive compensation for our research and analysis activities (e.g., research papers) from a variety of financial institutions including large banks, brokerage firms, insurance companies, and mutual fund companies. In order to mitigate any actual or potential conflicts of interest that arise from this service, we ensure that our research and analytical activities are non-biased and objective given our business relationships. Employees who provide research and analysis for clients are separate from our sales and relationship manager staff in order to mitigate the conflict of interest that an employee may feel pressure to present results in such a way as to maintain existing or gain new business. In addition, methodology updates that impact investment recommendations or decisions for Morningstar Retirement services are peer reviewed by the Morningstar Retirement Investment Policy Committee, which mitigates the conflict of interest by providing checks and balances so that no employee can act unilaterally in making recommendation decisions.

Our investment professionals provide portfolio construction and ongoing monitoring and maintenance for the portfolios within Morningstar Investment Services' Wealth Platform and to third-party Institutional Clients on Morningstar Investment Services' behalf. While the same or similar portfolios are offered by us to our Institutional Clients, we do not believe these responsibilities create any material conflicts of interest for our clients. In order to mitigate any perceived conflict of interest, when we offer discretionary services for Morningstar Wealth's portfolios, transactions for our clients are placed at the same time as transactions for Morningstar Investment Services' discretionary clients as part of block trades. We have procedures in place to ensure that trades are allocated in such a manner as to not favor one client over another. When we offer portfolios on non-discretionary basis to third-party

Institutional Clients, our Institutional Clients receive trade recommendations just after trades are placed for discretionary clients, due to our heightened fiduciary responsibilities to our discretionary clients. In addition, all non-discretionary clients are notified of transaction recommendations after the close of the trading day, so that no one such client has an advantage over another.

When we, along with Morningstar and/or our other affiliates offer services to the same client, we have the option to enter into a bundled agreement with the client that encompasses all or part of those services. Additional fee(s) for such product(s) or service(s), if required, will be set forth in our agreement with the client. In these situations, clients pay a fee directly to us and each such affiliate for its products or services, or as part of a joint fee schedule which encompasses all services.

#### *Affiliations – Investment Management Group Registered Entities*

Morningstar has an Investment Management group that consists of various subsidiaries across the globe that are each registered with the applicable regulatory body or bodies in that country. Morningstar Investment Management LLC consists of two groups – Morningstar Retirement<sup>SM</sup> and Morningstar Wealth<sup>SM</sup>. We share resources with this global group, as described earlier in this brochure. Another member of this group, Morningstar Investment Services LLC, is our subsidiary and is also an investment adviser registered under the Advisers Act. Morningstar Investment Services is additionally registered with the Securities and Exchange Commissions as a broker-dealer and a member of the Financial Industry Regulatory Authority (FINRA). Morningstar Investment Services offers model portfolios and separately managed accounts through its role as the sponsor of an investment advisory program known as the Wealth Platform and through third-party financial institutions, plan sponsor services, and retirement plan services for institutional and retail clients.

In some cases, our senior management members have management responsibilities to these other affiliated entities. We do not believe that these management responsibilities create any material conflicts of interests for our clients.

Morningstar Retirement and Morningstar Wealth have set up service teams composed of employees of our affiliate and located at our affiliate's office in Mumbai, India. In addition, Morningstar Retirement has a team composed of employees of our affiliate located at our affiliate's office in Toronto, Canada. We compensate our affiliates for services rendered via intercompany charges. The services and compensation will be governed by intercompany agreements. This compensation will likely be lower than compensation negotiated with non-affiliated firms for the same or similar services. To mitigate any conflict of interest between us and our affiliates we have established dual reporting lines for employees on these teams so that such employees report up to employees of Morningstar Investment Management. We've also established information security boundaries and technology separation to protect our non-public information and Morningstar's compliance department monitors the personal trading activity of these employees.

#### *Affiliations – Other Registered Entities*

Morningstar Research Services LLC is not part of the Investment Management group but is also a wholly owned subsidiary of Morningstar and an investment adviser registered under the Advisers Act. Morningstar Research Services' offerings center around the production of investment research reports and investment consulting services to financial institutions/institutional investors who themselves are registered with and governed by a regulatory body. Conflicts of interests between us and Morningstar Research Services are mitigated by such things as the maintenance of separate legal entities and reporting/organization lines, and the utilization of physical (i.e., separate floors) and technological separation. Morningstar Research Services also maintains a committee structure so as to limit any unilateral decisions. Morningstar's compliance department monitors the personal trading activities of Morningstar Research Services' employees.

We have the option to engage Morningstar Research Services to perform investment manager due diligence and/or selection services on our behalf as a sub-adviser or consultant. The notification to and authorization by the Institutional Client to our

engaging Morningstar Research Services as a sub-adviser is addressed in our agreement with the Institutional Client. On such occasions, we compensate Morningstar Research Services for services rendered via an intercompany charge. The services and compensation will be governed by an intercompany agreement. This compensation will likely be lower than compensation negotiated with non-affiliated financial institutions/institutional investors for the same or similar services. Morningstar Research Services' employees who are engaged to provide manager due diligence and/or selection services are prohibited from using non-public/confidential information obtained because of their engagement in its investment research reports and/or investment consulting services to clients, including us.

Morningstar Research Services provides information to the public about various securities, including managed investments like open-end mutual funds and ETFs, which include written analyses of these investment products in some situations. Although we use certain products, services, or databases that contain this information, we do not participate in or have any input in the written analyses that Morningstar Research Services produces. While we consider the analyses of Morningstar Research Services, our investment recommendations are typically based on our separate and independent research and analysis of the available investment product.

Morningstar Research Services issues investment research reports on securities we hold in our portfolios or recommend to our clients, but they do not share any yet-to-be published views and analysis and/or changes in estimates (i.e., their confidential information) with us on these securities. Other than the use of their publicly available analysis as part of our review process, we do not solicit the input of Morningstar Research Services prior to making investment decisions or recommendations (unless we engage them as a sub-adviser as noted under the 2<sup>nd</sup> paragraph of the *Affiliations – Other Registered Entities* section), nor do we have access to their analysis prior to its public dissemination. We mitigate any actual or potential conflicts of interest that could arise from the access of their analysis prior to publication through measures such as informational barriers (both physical and technological), maintaining separate organizational reporting lines, and monitoring by the compliance department.

Morningstar Research Services prepares qualitative analysis on separately managed accounts and model portfolios. To mitigate conflicts of interest, Morningstar Research Services does not prepare qualitative analysis on, nor recommend any separately managed account or model portfolio we offer.

Some of Morningstar Research Services' clients are sponsors of funds or associated with other securities that we recommend to our clients. We mitigate any actual or potential conflicts of interests resulting from this fact through such measures as informational barriers (both physical and technological), maintaining separate organizational reporting lines, and monitoring by the compliance department. In addition, we do not factor in the relationship between Morningstar Research Services when analyzing investments or making recommendations.

Morningstar Investment Management serves as an investment adviser to investment companies registered under the Investment Company Act of 1940, as amended, and to other pooled investment products. To mitigate conflicts of interest, Morningstar Research Services does not prepare qualitative analysis on nor recommend as part of their investment consulting services any investment company we are an investment adviser to.

#### *Affiliations – Morningstar, Inc.*

Our parent company, Morningstar, Inc., is publicly traded (Ticker Symbol: MORN). We may recommend an investment product that holds a position in publicly traded shares of Morningstar's stock. Such an investment in Morningstar's stock is solely the decision of the investment product's portfolio manager. We have no input into a portfolio manager's investment decision nor do we require that the investment products we recommend own shares of Morningstar. An investment product's position in Morningstar has no direct bearing on our investment selection process. We mitigate any actual or potential conflicts of interest by not factoring Morningstar's

publicly traded stock into our qualitative or quantitative analysis nor in our recommendations.

Morningstar offers various products and services to the public. Some of Morningstar's clients are service providers (e.g., portfolio managers, advisers, or distributors affiliated with a mutual fund or other investment option). We may have a contractual relationship to provide consulting or advisory services to these same service providers or we may recommend the products of these service providers to our advisory clients. To mitigate any actual or potential conflicts of interest, we do not consider the relationship between Morningstar and these service providers when making recommendations. We are not paid to recommend one investment option over another, including products of service providers with which Morningstar has a relationship.

Morningstar provides information to the public about various investment products, including managed investments like open-end mutual funds and ETFs. In some cases, this information includes written analyses of these investment products. Although we use certain products, services, or databases of Morningstar, we do not participate in or have any input in the written analyses that Morningstar provides its licensees. While we consider the analyses of Morningstar, our investment recommendations are typically based on our separate and independent research and analysis of the available investment product.

Morningstar hosts educational events and conferences and on occasion provides us with the opportunity to suggest invitees or offer (proactively or upon request) discounted or waived registration fees. We mitigate any actual or potential conflicts of interest this may introduce by using pre-defined criteria to select Clients for these opportunities.

Morningstar offers various products and services to retail and institutional investors. In certain situations, we recommend an investment product that tracks an index created and maintained by Morningstar. In such cases, the investment product sponsor has entered into a licensing agreement with Morningstar to use such index. To mitigate any conflicts of interest arising from our selection of such investment products, we use solely quantitative criteria established by our advisory client to make such selection, or, in the alternative, Morningstar's compensation from the investment product sponsor will not be based on nor will it include assets that are a result of our recommendation to our advisory client to invest in those investment products. In other cases, some of Morningstar's clients are sponsors of funds that we recommend to our clients. Morningstar does not and will not have any input into our investment decisions, including what investment products will be recommended for our recommended portfolios. We mitigate any actual or potential conflicts of interest by imposing informational barriers (both physical and technological), maintaining separate organizational reporting lines, and monitoring by the compliance department. In addition, we do not factor in the relationship between Morningstar when analyzing investments or making recommendations. We mitigate any actual or potential conflicts of interests resulting from that by not producing qualitative analysis on any such exchange-traded fund as well as imposing informational barriers (both physical and technological), maintaining separate organizational reporting lines between, and monitoring by the compliance department.

In some instances, we create portfolios that track an index created and maintained by Morningstar. Morningstar does not and will not have any input into our investment decisions, including what investment products will be included in our portfolios. We mitigate any actual or potential conflicts of interest by imposing informational barriers (both physical and technological), maintaining separate organizational reporting lines, and monitoring by the compliance department.

Morningstar has and maintains accounts which they invest in accordance with investment strategies created and maintained by us. Those investment strategies are deployed using equity securities. As we have discretion over these accounts, Morningstar's accounts are traded at the same time as our and Morningstar Investment Services' other discretionary client accounts in order to ensure that Morningstar's accounts are not treated more favorably than our client accounts.

Some of Morningstar's accounts are used as the subject of newsletters offered by Morningstar. In order to ensure that Morningstar's newsletter subscribers are not treated more favorably than our clients, which would result in a breach of our fiduciary duty, we do not report trades in Morningstar's accounts invested in our strategies to newsletter subscribers until after our client accounts have been traded or our non-discretionary clients have been notified.

As a wholly owned subsidiary, we use the resources, infrastructure, and employees of Morningstar and its affiliates to provide certain support services in such areas as technology, procurement, human resources, accounting, legal, compliance, information security, and marketing. We do not believe this arrangement presents a conflict of interests to us in terms of our advisory services. Employees of Morningstar that provide support services to us have the option to maintain their Financial Industry Regulatory Authority ("FINRA") security licenses under Morningstar Investment Services' limited broker/dealer registration, if appropriate for their current job responsibilities. We believe no conflict of interest exists due to the maintenance of these security licenses.

In certain situations, we make our clients aware of various products and services offered by Morningstar or its affiliates. We do not receive compensation for that introduction. Morningstar and its affiliates also have the option to make their clients aware of various products and services offered by us. Morningstar and its affiliates do not receive any compensation from us for that introduction, unless it falls under a solicitation arrangement, as described in Item 14 below.

Morningstar Wealth includes investment advisory services from Morningstar's Investment Management group, portfolio management software Morningstar Office<sup>SM</sup>, investment data aggregator ByAllAccounts<sup>®</sup>, and the individual investor experience across Morningstar.com<sup>®</sup>. Daniel Needham, our co-president, has management responsibilities for Morningstar Wealth. We do not believe that these management responsibilities create any material conflicts of interests for our clients, but we mitigate any actual or potential conflicts of interests resulting from that by imposing informational barriers where appropriate and undertaking compliance monitoring of the Investment Management group.

#### *Affiliations – Morningstar, Inc.'s Subsidiaries*

Equity and manager research analysts based outside the United States are employed by various wholly owned subsidiaries of Morningstar. These analysts follow the same investment methodologies and process as Morningstar Research Services, as well as being held to the same conduct standards. As a result, we do not believe this structure causes actual or a potential for a conflict of interest.

#### *Affiliations – Credit Rating Agency*

We are affiliated with the DBRS Morningstar group of companies, which include DBRS, Inc., DBRS Limited, DBRS Ratings GmbH, and DBRS Ratings Limited. DBRS, Inc. is registered with the Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (NRSRO). DBRS Morningstar's companies are also registered with and governed by applicable regulatory body or bodies in other countries around the globe. In our analysis of certain securities, we use the publicly available credit rating and analysis issued by DBRS Morningstar. Because of our use of DBRS Morningstar's ratings and analysis is limited to that which is publicly available, we do not believe there is an actual or potential conflict of interest that arises from such use.

## **Item 11. Code of Ethics, Participation or Interest in Client**

### **Transactions and Personal Trading**

#### **Code of Ethics**

We have in place a Code of Ethics pursuant to Rule 204A-1 under the Advisers Act ("Code of Ethics"). Our Code of Ethics strives to uphold the highest standards of moral and ethical conduct, including placing our clients' interest ahead of our own. Our Code of Ethics covers all our officers and employees as well as other persons who have access to our non-public information (collectively "Access Persons"). Our Code of Ethics addresses such topics as professional and ethical responsibilities, compliance with securities laws, our fiduciary duty, and personal trading practices.

Our Code of Ethics also addresses receipt and/or permissible use of material non-public information and other confidential information our Access Persons may be exposed and/or have access to given their position. The Code of Ethics is provided upon hire and at least annually thereafter and at each time, the Access Person must certify in writing that she or he has received, read, and understands the Code of Ethics and that they agree to or have complied with its contents. A copy of our Code of Ethics is available to existing and prospective clients by sending written request to [compliance@morningstar.com](mailto:compliance@morningstar.com).

### **Interest in Client Transactions**

Our Access Persons have the option to maintain personal investment accounts and purchase or sell investments in those accounts that are the same as or different from the investments we recommend to clients. Because we generally recommend mutual funds and ETFs, our Access Persons' personal investing activities should not conflict with our advisory activities or the timing of our recommendations. In addition, our Code of Ethics is designed to ensure that Access Persons' personal trading activities will not interfere with our clients' interests, while allowing our Access Persons to invest in their own accounts. We do not engage in principal transactions (transactions where we, acting in our own account or in an affiliated account, buy a security from or sell a security to a client's account) nor do we engage in agency cross transactions (transactions where we or our affiliate executes a transaction while acting as a broker for both our client and the other party in the transaction).

### **Interest in Securities That We May Recommend**

Morningstar Investment Management has and maintains a number of seed accounts (accounts used to establish a strategy we offer or are tracking), many of which follow strategies we offer to clients. We place block trades for our accounts, therefore trade requests for our seed accounts are placed at the same time as trades are placed for those client accounts invested in the same strategy and for which we have discretion. Block trades are allocated in such a manner as to ensure that our seed accounts do not receive more favorable trades than our clients' accounts. Client accounts that we manage on a discretionary basis and thus, our seed accounts, are traded just before we provide model portfolio trade recommendations to other clients using our U.S. managed portfolios. However, our model portfolio clients receive trade recommendation after the close of the trading day, so that no one model portfolio client is favored over another.

### **Personal Trading By Access Persons**

Our Code of Ethics is designed to ensure that Access Persons' personal trading activities do not interfere with our clients' interests. While our Access Persons have the option to maintain personal investment accounts, they are subject to certain restrictions. Our Code of Ethics includes policies designed to prevent Access Persons from trading based on material non-public information. Access Persons in possession of material non-public information are prohibited from trading in securities which are the subject of such information and from tipping such information to others. In certain instances, we employ information blocking devices such as restricted lists to prevent illegal insider trading. Morningstar's compliance department monitors the activities in the personal accounts of our Access Persons (and any accounts in which they have beneficial ownership) upon hire and thereafter. Access Persons are required to pre-clear IPO, initial digital coin offerings, and private placement transactions with Morningstar's compliance department.

### **Item 12. Brokerage Practices**

Where we exercise investment discretion, we will generate trade instructions for each retirement account that requires investment, reallocation, or rebalancing and forward those instructions to the appropriate institution as designated by the service provider. As a result, we do not have the ability to make decisions regarding which broker is used to execute the transactions nor the timing of when the trade is executed. This could result in different pricing of client trades. We do not participate in any soft dollar practices.

### **Item 13. Review of Accounts**

Retirement accounts enrolled in Managed Accounts are typically rebalanced to your account's asset allocation target or reallocated on a quarterly basis as necessary and

your portfolio allocations will be adjusted on an annual or as-needed basis to account for changes in your age and any other significant personal or financial changes to your situation that you have informed us about. Our methodology has a built-in mechanism to help prevent unnecessary trading, and therefore will not propose any changes to your investment strategy if the adjustments are relatively small. You are responsible for notifying us of changes in your personal and financial information, investment objectives, and investment restrictions so that we can make the necessary adjustments to your investment strategy. Periodically, you will receive a written progress report with information about your account, either in an electronic format (e.g., by email or through Internet account access) or by U.S. mail to your address of record. This progress report may include such things as your progress toward your retirement goal, investment performance information, and an analysis of your retirement account.

We do not provide ongoing account reviews as part of Advice and Guidance. You should review your retirement account asset allocation recommendations on a regular basis. You can use the Morningstar Retirement Manager platform at any time to update your personal information and review your retirement strategy, which will likely change as the result of the updated information. We recommend you return to our site every six months to receive an updated strategy, or sooner if you have had any significant changes in your personal or financial situation. We also recommend you return to our site whenever there has been a change in the available investment options in your retirement plan or product lineup. We do not prepare periodic reports as part of Advice or Guidance.

### **Item 14. Client Referrals and Other Compensation**

We make direct or indirect cash or non-cash payments to our affiliates or to unaffiliated third parties for recommending our services. If such payments occur, they will be done pursuant to Rule 206(4)-1 of the Advisers Act. Clients referred by third party solicitors may in some cases pay a higher fee than clients who contract with us directly. Through disclosures, which are spoken or given to Clients at the time of the solicitation, solicited Clients are made aware of the arrangement between the solicitor and us (and therefore that the solicitor has a financial interest in recommending us to Client), any other material conflicts of interest, and the terms of any compensation paid directly or indirectly to the solicitor as a result of their referral.

### **Item 15. Custody**

We do not serve as a custodian of client assets. However, in cases where we have the ability to debit fees directly from client accounts, we are deemed to have custody of client assets under Rule 206(4)-2 of the Advisers Act, even if we do not act as a custodian. Your service provider or its designee is responsible for selecting the custodian for your plan assets and you should receive statements from the qualified custodian that holds your assets at least quarterly. You should carefully review such statements and compare them to the written progress reports we provide to you. Our progress reports may vary from custodial statements because of differences in accounting procedures (e.g., trade-date versus settlement-date accounting) or reporting dates. If you note any discrepancies on your account statements, please promptly contact your service provider.

### **Item 16. Investment Discretion**

When you accept the advisory agreement for Managed Accounts, you assign to Morningstar Investment Management or Morningstar Investment Management and the Other IA (applicable to Advisor Managed Accounts) full discretion to manage the investments of your retirement account on your behalf and to monitor it on an ongoing basis. Based on information provided by you, you receive an individualized asset allocation strategy and investment options appropriate for that strategy which are selected from the options available to your retirement account. As described above, you have the right to impose reasonable restrictions on your retirement account. We, and if applicable the Other IA, will exercise our discretion in managing your account consistent with your individualized strategy and within the account restrictions, if any.

If you elect Advice or Guidance, you retain the investment discretion and control of your retirement account. We provide you with information designed to help you make

investment choices regarding your retirement account assets, but you are responsible for managing the investments in your account. We do not monitor, review or update our recommendations or projections on an ongoing basis.

**Item 17. Voting Client Securities**

You are responsible for receiving and voting proxies for all investments held in your retirement account. You may receive proxies or other solicitations directly from your account's custodian. We do not have the authority to and will not vote proxies. We cannot provide information or advice in regard to questions you have about a particular solicitation.

We do not advise or act for you in legal proceedings, including class actions or bankruptcies, involving recommended securities.

**Item 18. Financial Information**

We are required to provide you with certain financial information or disclosures about our financial condition. We do not have any financial commitment that impairs our ability to meet our contractual and fiduciary commitments to clients, nor have we been the subject of any bankruptcy proceeding.